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April 29, 2011

Board of Governors of the Federal Reserve System
ATTN: Jennifer J. Johnson, Secretary
20th Street & Constitution Ave NW
Washington, DC 20551

RE: Docket No. R-1413 Regulations D, Q, and DD
RIN No. 7100-AD60
Prohibition Against Payment of Interest on Demand Deposit

Members of the Board:

1st Bank, Sidney, Montana, is a \$115 million to \$120 million total asset bank, which is small by too-big-to-fail standards. Since there is little or no demand for new loans—from applicants with the ability to repay—our loan-to-deposit ratio has declined to approximately 60%.

Yes, the repeal of Regulation Q will increase 1st Bank's cost of funds, and without loan demand, that additional cost will decrease net income. Since big banks have branches in many locations and economies, big banks will not be tied to local community loan demands. Big banks will be able to bid up the rates paid and move these deposits, especially with remote deposit capabilities. Consequently, community banks may be "out-priced" or forced to match the big-bank rates, which will reduce income.

The repeal of Regulation Q has the potential to be just another nail in the coffin of community banks.

Sincerely,


John L. Franklin
President & CEO

JLF/wc

p.s. Community banks should be characterized as banks \$500 million and less total assets, not \$10 billion and less total assets.

www.our1stbank.com

